

As was demonstrated in the individual LEC Direct Cases filed on June 1, 1992, and as demonstrated further in the USTA written ex parte communication filed on September 9, 1992, each price cap LEC with any relevant VEBA funding reduced its exogenous amount by the amount of VEBA funding. Also, as demonstrated, a number of the price cap LECs had no prefunding of VEBA obligations in their initial price cap rates. The USTA ex parte demonstrates that GTE, NYNEX, Rochester, SNET, SWBT and US WEST had no VEBA funding amounts included in the interstate regulated cost of service.

Also, VEBA funding has increased from the 1990/91 base period used as the base for price cap rates to the 1992-93 time period. Thus, the price cap LECs have generally taken a conservative approach, typically reducing their exogenous amounts by the higher 1993 VEBA funding amounts, rather than the 1990/91 amounts reflected in their initial price cap rates. Because of the explicit reductions in exogenous amounts made by Ameritech, BellSouth, Bell Atlantic, Pacific, and US WEST, the full amount of the OPEB expenses previously used in the Frentrup/Uretsky productivity study and significantly more has already been excluded from the exogenous amounts. In fact, a number of the companies that had no prefunding for the 1990/91 tariff filings actually made explicit reductions in their exogenous amounts for VEBA funding done in 1992 or 1993, even though no VEBA funding was reflected in their initial price cap rates. Given that the exogenous amounts already excluded the VEBA funding amounts, pre-price cap VEBA funding is not now included in the exogenous amounts under

consideration. These effects dwarf any of the Commission's concerns regarding double counting.

Second, the Commission cannot sustain a conclusion that the VEBA funding amounts incurred prior to the implementation of price cap regulation should not be included in the regulated cost of service. The Commission has already accepted VEBA funding amounts as an appropriate basis for regulated expenses.⁸³

The FASB and the Commission already agree that the SFAS-106 method of accrual account for OPEB costs more accurately reflects the costs incurred by carriers. As a result, the Commission could not remove SFAS-106 from an accurate determination of productivity that is founded on an examination of costs and revenues.

In its D&J, SWBT demonstrated that removal of VEBA funding amounts for LECs is not an appropriate means of measuring regulated cost of service. To now require that certain amounts of accrual accounting for OPEBs be removed from a historical study of regulated cost of service is tantamount to a decision to disallow those costs for ratemaking purposes. The Commission cannot sustain such an improper decision. Productivity studies should include all regulated costs of service, whether they are pay-as-you-go or accrual accounting, whether they are endogenous or exogenous. No legal or regulatory basis for such a disallowance of prudently incurred regulated cost of service has been established. Contrary

⁸³ See Section I.B.1.k, supra.

to the allegations,⁸⁴ no empirical demonstration by the LECs on this issue is compelled. The Commission should give no weight to an approach that incorrectly eliminates SFAS-106-type costs from a short-term productivity study.

Thus, with respect to any VEBA funding of SFAS-106-type costs, there is no possible source of double counting that arises out of any appropriate use of the Commission's previous short-term productivity study.

5. Demographic Data is Provided as Requested.

The MO&O, requests additional demographic data:

We direct the LECs to provide evidence of and describe the ranges of data on the age of the workforce, the ages at which employees will retire, and the length of service of retirees, presented by their actuaries and used by the companies to compute OPEB amounts claimed in the annual access transmittals.⁸⁵

SWBT herein provides the demographic data on employees and retirees as requested.⁸⁶ Exhibit A of Appendix I presents data on the age of SWBT's employees and average projected age at retirement. The average age of SWBT's employees is 41.6 years. Of the total SWBT employees, approximately 16% are younger than 35 years old, 71% are in the 35 to 49 year age range, and 13% are 50 years old or older. The average projected age at retirement is

⁸⁴ Ad Hoc Petition for Partial Rejection, at p. 3; MCI Petition to Reject, at pp. 17-18.

⁸⁵ MO&O, at para. 105, item 1.

⁸⁶ Id.

57.4 years. The average projected service at retirement is 33.3 years.

Exhibit A also presents data on the length of service of

with exogenous cost rules virtually identical to the rules governing price cap LECs, and after participating in the LEC price cap debate regarding exogenous treatment, and the even more lengthy debate of accrual accounting for OPEBs before the FASB, AT&T believed that accrual accounting for OPEBs (SFAS-106) was exogenous.

Also, at Divestiture from AT&T, SWBT assumed primary financial and administrative responsibility for all retirees associated with the split of assets and liabilities between SWBT and AT&T. When splitting assets at Divestiture, in general, AT&T received the Long Lines, or interstate, portion of the assets, while the RBOCs received the intraLATA portion of assets. All liabilities associated with the retirees were deemed the responsibility of the Regional Bell Operating Companies (RBOCs), while AT&T was required to pay a portion of the costs of retirees

extent that SWBT and the other price cap LECs have been working to obtain rate recovery for retiree medical care costs, they have been acting on behalf of the employees and retirees of the LECs, as well as the former AT&T employees who retired prior to 1984.

II. SWBT HAS PROPERLY REALLOCATED GSF COSTS IN ACCORDANCE WITH THE GSF ORDER.

The Commission's GSF Order in CC Docket No. 92-222⁸⁹ modified 47 C.F.R. Section 69.307 regarding the allocation of General Support Facility (GSF) costs. This modification requires LECs, as of July 1, 1993, to allocate GSF among the Part 69 access categories based on investment in central office equipment, information origination/termination equipment, and cable and wire facilities (C&WF). Previously, LECs allocated GSF based upon these same investments, but Category 1.3 (Exchange Line) C&WF was excluded for allocation purposes. The GSF Order also allows Price Cap LECs to treat as exogenous the reallocation of GSF costs that is caused by the modified rule.⁹⁰

SWBT used separations and access cost base year data from its 1993 Annual Access Tariff filing as described and displayed in SWBT's Transmittal No. 2271. SWBT modified this data to incorporate the modification of Section 69.307 as required by the GSF Order and filed revisions to its tariffs on June 17, 1993 to

⁸⁹ In the Matter of Amendment of the Part 69 Allocation of General Support Facility Costs, Report and Order, (FCC 93-238) (released May 19, 1993) (GSF Order).

⁹⁰ GSF Order, at para. 16.

reflect the GSF cost shift.⁹¹ The following are the exogenous cost impacts for each access element included in SWBT's Tariff filing:

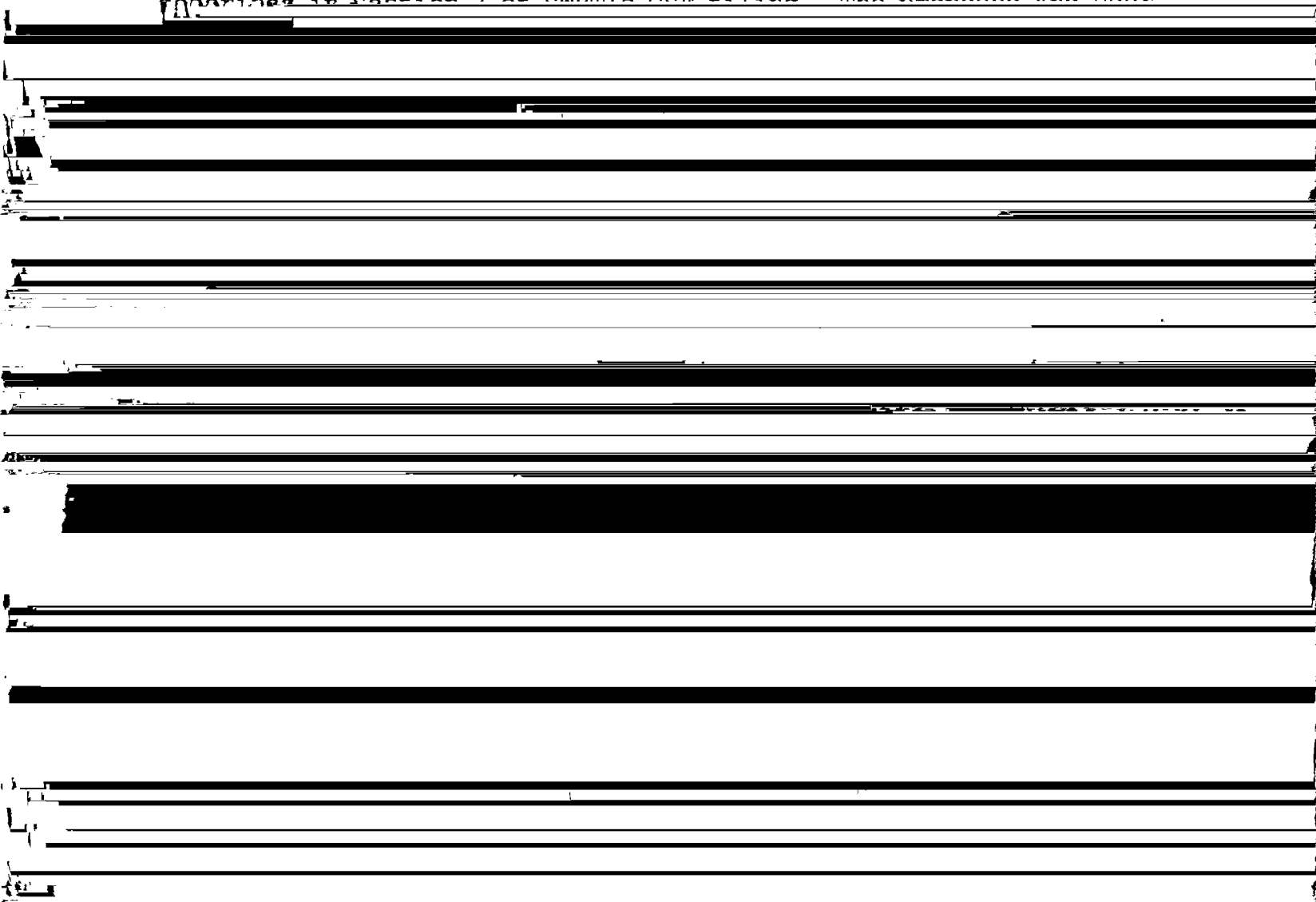
<u>Basket</u>	<u>GSF Impact</u>
Common Line	\$93,560,000
Switched-TS	(\$65,973,000)
Special	<u>(\$26,587,000)</u>
Total Access	\$1,000,000
Interexchange	<u>(\$1,000,000)</u>
Total	\$0

These amounts were treated as exogenous cost amounts and the relevant basket Price Cap Indexes (PCIs) were adjusted accordingly as described in Section 3 of SWBT's GSF filing.⁹²

As a result of the change in the Price Cap LEC's Carrier Common Line (CCL) rates caused by the shift in GSF costs, the

\$10,964,679 was provided by NECA.⁹³ The support payment amount included in SWBT's PCI(t-1) is \$9,784,038. This amount includes \$4,701 of Transitional support and \$9,779,336 of Long Term Support.⁹⁴

The exogenous costs were used to calculate a revised PCI for each of the four price cap baskets. As a result of the exogenous cost treatment, the PCI for the Common Line basket increased, while the PCIs for the Traffic Sensitive, Interexchange and Special Access baskets decreased. SWBT modified its Service Band Index (SBI) limits to reflect the change in basket PCIs as described in Section 2 of SWBT's G&P filing. The proposed End User



III. THE RATE ELEMENTS ASSOCIATED WITH LIDB SHOULD REMAIN IN THE TRANSPORT CATEGORY.

In responding to SWBT's Petition for Waiver of Part 69 of the rules to establish the rate elements associated with LIDB, the Commission concluded that:

the precise subelements described in the Southwestern Bell petition would not be optimal.⁹⁵

Thus, the Commission determined that LIDB would be more appropriately recovered from not one, but two LIDB subelements. One subelement was established for the Signal Transfer Point (STP) facilities and the transmission lines dedicated to LIDB (LIDB Transport). Another subelement was also established for the Service Control Point (SCP) costs (LIDB query).

The LIDB Query Transport rate element was specifically designed to recover the costs for the transmission facilities between the STP and the SCP. The Transport category is appropriate for this element given that it provides the same function as the transport element for other switched access services, namely the cost recovery of the facilities required for transmission. The purpose of this element has not changed since it became effective in SWBT's tariffs on January 1, 1992.

Further, the SWBT LIDB Order recognized that interconnection of CCS networks is required for LIDB and other out-

⁹⁵ Southwestern Bell Telephone Company Petitions for Waiver of Part 69 of the Commission's Rules, 6 FCC Rcd 6095 (1991) (SWBT LIDB Order), at para. 21.

of-band signaling services.⁹⁶ The Commission further recognized that:

the link between an IXC SPOI and a LEC STP that Southwestern Bell calls STP Access Mileage will be used to deliver, or facilitate the delivery of, switched services offered by IXCs.⁹⁷

The Commission went on to specify that:

the costs of STP Access Mileage are properly recovered as a new dedicated transport subelement in the Transport element"⁹⁸

The same decision was made by the Commission for the STP Port Termination subelement.⁹⁹

Since LIDB Validation Service is dependent on network interconnection, and since network interconnection costs and revenues are to be included in the Transport element, LIDB Validation Service costs and revenues should also be placed in the Transport element. Dependent costs and revenues portions of a service should not be treated in a different manner for price caps purposes. In the case of LIDB Validation Service, the service itself and the network interconnection service are both switched access services and should both be included in the Transport basket.

⁹⁶ Id., at para. 22.

⁹⁷ Id., at para. 30.

⁹⁸ Id., at para. 30.

⁹⁹ Id., at para. 29.


IV. CONCLUSION

For the foregoing reasons, SWBT respectfully requests that the Bureau find that SWBT has borne its burden of demonstrating that implementing SFAS-106 results in an exogenous cost change for the TBO amounts, that SWBT has properly reallocated GSF costs in accordance with the GSF Order, and that SWBT has properly placed LIDB query charges in the Transport category.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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July 27, 1993

Appendix A

**Contract Between SWBT and
the Communications Workers of America**

August 10, 1992

FYI Bulletin



**Southwestern Bell
Telephone**

Terms of 1992 CWA-SWBT settlement agreement

This *FYI Bulletin*, for all SWBT managers, includes the terms of the tentative settlement agreement reached August 8, 1992, by Southwestern Bell Telephone and the Communications Workers of America (CWA), District 6.

If ratified by members of the CWA, District 6, by September 14, 1992, this agreement will become effective August 9, 1992.

You may want to keep this copy for reference.

"Section V.

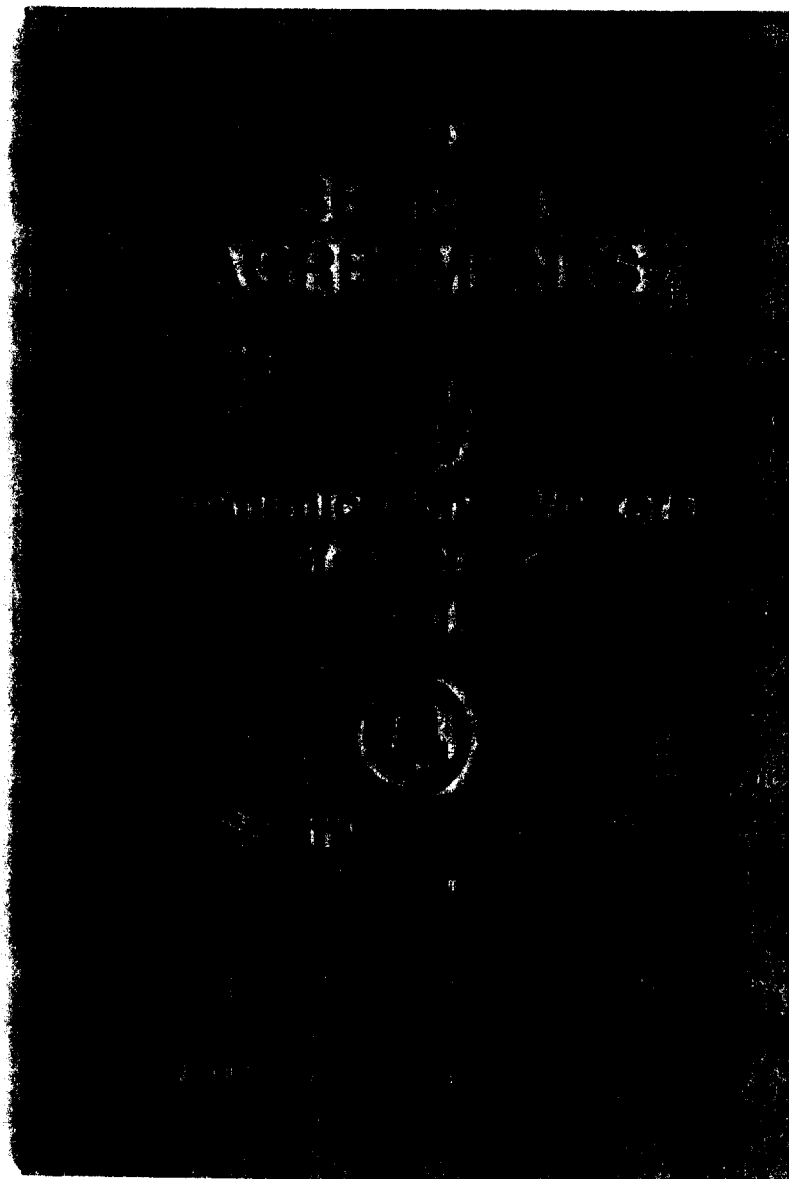
1. Where the Union desires to present to the Company any grievance of any employee(s) in the bargaining unit represented by the Union with respect to eligibility of such employee(s) for coverage under the Plan or under an HMO, such matter shall proceed in accordance with the provisions of Article XIX, Grievances, of the 1992 Departmental Agreement and Sections 2., 3., 4. and 5. of Article IV, Arbitration, of the 1992 Agreement of

18. The per capita limit on Company contributions for retiree medical for those employees who retire with pension effective dates between September 1, 1992 and January 1, 1996 shall be a subject of bargaining in 1995.

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Appendix B

**1992 Benefit Agreements Between SWBT and
the Communications Workers of America**



3. No contractual or policy relationships between the Company and the Claim Administrator or any other carrier or insurance company, nor between the Company and any HMO, nor any claim or claims by any employee(s) or retired employee(s), or by the relatives or personal representatives thereof, under or with respect to any insurance policy issued hereunder, nor any disputes as to the amount of any benefit payable or any benefit not paid by the Claim Administrator or any other carrier or insurance company, or by any HMO, shall be subject to any grievance procedure or arbitration under this or any other agreement between the Company and the Union.

SECTION VI. The Company will review with the Union the criteria to be used in the selection of a Claim Administrator or Administrators or any insurance company with which the Company contracts for insurance or administrative services to provide the benefits of the Plan prior to the selection thereof. The Company will notify the Union of any such selection and the reasons for such selection. In the event of a change in the Claim Administrator or Administrators or any insurance company, the Company will notify the Union of any such change at least 60 days in advance. The selection by the Company of a Claim Administrator or Administrators or any insurance company shall be conclusive and shall not be subject to any grievance procedure or arbitration under this or any other agreement between the Company and the Union.

SECTION VII. The Company and the Union expressly reserve the right to reopen, by mutual agreement, negotiations on a local basis at any time during the life of the Agreement for the purpose of considering recommendations from the Joint Health Care Cost Containment Committee and making changes in the Plan as they may agree.

SECTION VIII. This Agreement including all amendments shall be effective as of August 9, 1992, and shall

continue until 11:59 P.M., C.D.T., on August 5, 1995, at which time it will terminate.

IN WITNESS WHEREOF, Southwestern Bell Telephone Company and Communications Workers of America have caused this Agreement to be executed by their representatives thereunto duly authorized as of the day and year first above written.

COMMUNICATIONS WORKERS OF AMERICA

BY Victor Crawley

APPROVED BY

Morton Bahr

President, Communications Workers of America

SOUTHWESTERN BELL TELEPHONE
COMPANY

BY Gary Lucas

III. ELIGIBILITY

A. The following persons are eligible for coverage under the Plan subject to the provisions of Section IV:

1. All regular employees;
2. All temporary employees whose Net Credited Service is at least six (6) months;
3. All employees retired on service pension or disability pension, provided, however, that:
 - a. For all employees having pension effective dates on or after September 1, 1992, the portion of the monthly cost of post-retirement coverage to be paid by the Company shall be subject to a Company-wide annual dollar cap, and the retired employee shall pay a portion of the monthly cost, with the cap and the respective portions to be calculated as follows:
 - (1) On an annual basis, beginning in 1991, the Company shall accumulate data concerning the total Medical Plan benefits paid to or on behalf of all retirees and their dependents for the calendar year.
 - (2) The resulting figure for each calendar year shall, during July of the next year (beginning with July of 1992), be divided by the total number of retirees to obtain the Company's average annual Medical Plan benefit cost per retiree. The average cost then shall be adjusted to reflect prevailing medical trends over the preceding twenty-four (24) months. (For example, in July of 1992, the average cost for calendar year 1991 shall be adjusted based on trend data for the period July 1, 1990,

through June 30, 1992). If this adjusted average does not exceed \$4,050 per retiree, then in the succeeding calendar year the Company shall continue to pay the full cost of coverage.

- (3) If, however, the average cost per retiree (as calculated in (2)., above) exceeds \$4,050, then an adjusted Company contribution percentage shall be established by dividing \$4,050 by the actual cost per retiree. The result of this computation shall be the percentage of the monthly cost that the Company, beginning in January of the succeeding year, shall pay for each retiree having a pension effective date on or after September 1, 1992. The remainder of the total monthly cost shall be paid by each covered retiree except no retiree shall pay a portion of the monthly cost prior to January 1, 1996. Any surplus or deficit between the monthly cost and the actual retiree costs for each year, beginning in 1993, will be "trued-up" in the monthly cost calculation beginning in 1995.

4. Dependents of eligible employees and retired employees (Class I and Class II);

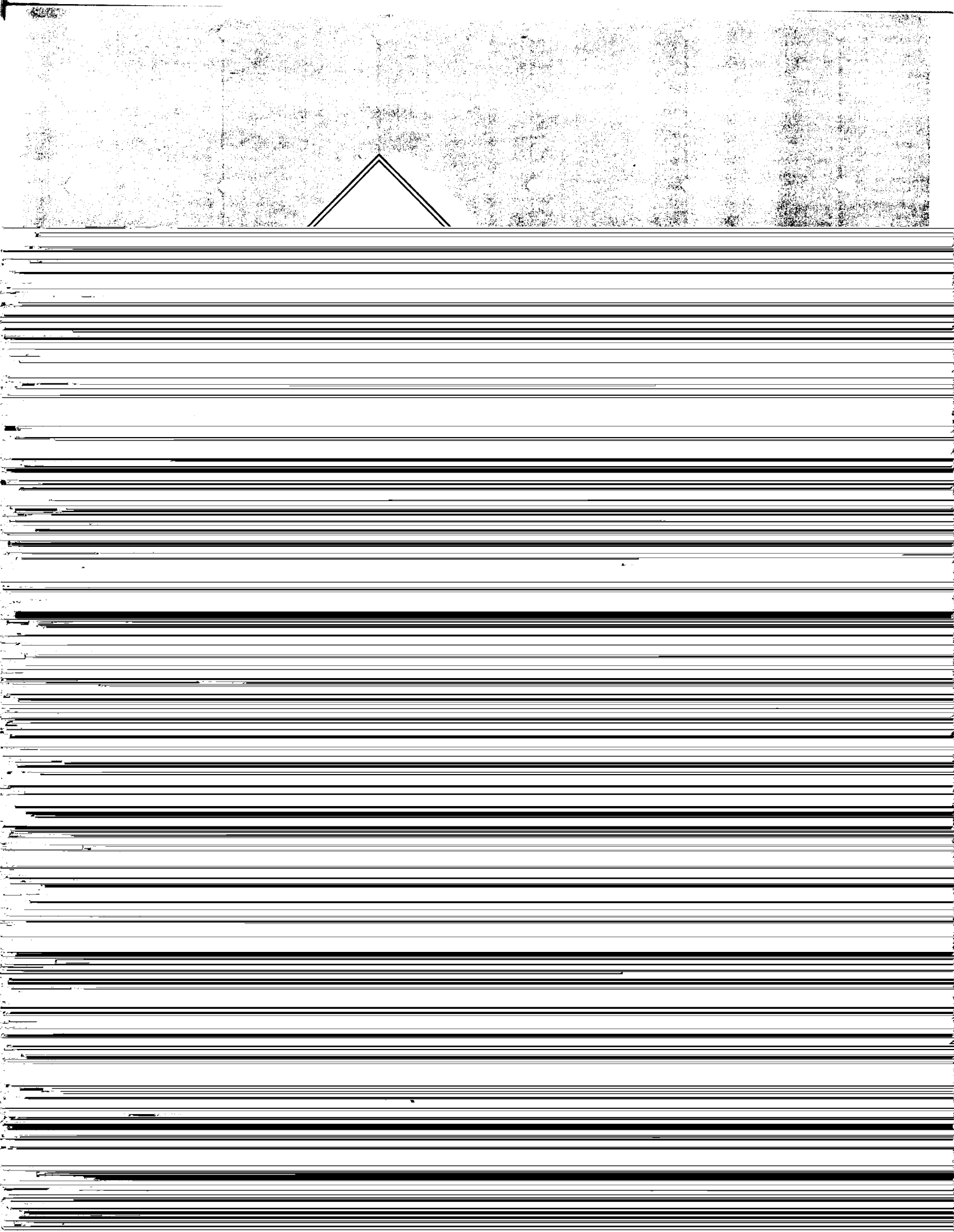
5. Sponsored children.

The Company reserves the right to require proof/legal documentation of eligibility.

- B. No person shall be eligible for coverage as an employee or retired employee and as a dependent of an employee or retired employee at the same time. In addition, no person shall be eligible for coverage as a dependent of more

Appendix C

Financial Protection for You & Your Family: A Description of Benefits for Nonmanagement Employees



OTHER IMPORTANT INFORMATION

This binder describes the highlights of your health, disability, life insurance, pension, savings and dependent care reimbursement plan benefits. It does not attempt to cover all the details. Specific details are contained in the official Plan Descriptions which regulate the operation of each plan. The Plan Description as listed in the chart entitled "Required Legal Information" legally governs the op-

already been incurred under any such program. With respect to the group life insurance coverages and disability benefits, this means that you will be entitled to the benefits as in effect at the time of the occurrence of the event which gives rise to payment of such benefits. This does not mean that you or any other active or retired employee will acquire a lifetime right to any such welfare plan benefit or to eligi-

accumulated as a result of employer contributions in advance of employee retirements. If the group policy should be discontinued, the fund shall be utilized to continue Basic Life Insurance, to the extent described below, for the following classes of employees who were insured on the date of discontinuance:

- (a) Employees who are retired on a Service Pension under the Southwestern Bell Corporation pension plans and employees who have been granted a Disability Pension under the Southwestern Bell Corporation pension plans;
- (b) Employees who are eligible to retire under the Southwestern Bell Corporation pension plans; and
- (c) Employees who are not eligible to retire under the Southwestern Bell Corporation pension plans.

The insurance company shall determine on the date of such discontinuance, the estimated present value of all mortality, expense and risk charges for employees in class (a), and by completed years of Net Credited Service and by attained age for employees in classes (b) and (c). If the amount in the

Account, for all employees in classes (a) and (b) and for any or all employees in class (c), for whom the estimated present value of all mortality, expense and risk charges equals the Retirement Funding Account less the estimated present value of all mortality, expense and risk charges on employees in classes (a) and (b), such class (c) employees to be determined by completed years of Net Credited Service and by attained age, with priority given to greater length of service and then to older attained ages within the same length of service.

Savings and Security Plan

Southwestern Bell Corporation, by action of the Board of Directors, may at any time terminate the making of allotments from pay of all employees participating in the Plan and of contributions by all Participating Companies. Southwestern Bell Corporation, at the request of any Participating Company, will terminate the making of allotments from pay of employees and of contributions by such Participating Company. If at any time the current profits and accumulated earned surplus of Southwestern Bell Corporation and of the Participating Companies which are joined (or could be joined) with it in a